



**COMPANY ANNOUNCEMENT  
4 JULY 2016**

---

**LCS PROGRAM AND EARNINGS UPDATE**

---

**Summary**

- A comprehensive review of Austal's ~ US\$4 billion LCS block buy contract has been completed following delivery of LCS 6 & 8 and preliminary results of the first two physical shock trials of LCS 6.
- The contractual requirement to meet the military shock standard and US Naval Vessel Rules has driven a significantly higher level of modifications to the ship design and cost than previously estimated.
- Initial findings of the shock trials are that the implementation of the design modifications have been successful, providing greater certainty about the maturity of the revised baseline design and the cost of construction.
- Design modifications and significant re-work of construction already undertaken are being implemented across the 9 LCS vessels currently under construction (LCS 10 - 26).
- A US\$115 million (A\$156 million) one off write back of work in progress (WIP) is required to recognise an increase in the cost of construction (unaudited).
- Statutory Group EBIT is expected to be in the range \$(116) - (121) million
- The Expeditionary Fast Transport program (formerly JHSV) is mature and performing well.
- Net cash of \$49 million at 30 June 2016 representing \$75 million cash flow (pre-dividend payments and debt reduction) in the year (unaudited).
- Austal held \$221 million of cash and \$(140) million of gross infrastructure debt at 30 June 2016 (unaudited) and remains compliant with banking covenants with ongoing support from the syndicate.
- Austal expects to declare a final dividend of 2 cents per share, which would be a total of 4 cents per share for the year and expect to further reduce infrastructure debt in FY2017 H1.
- The review provides greater confidence in future US shipbuilding EBIT margins – expected to be 5-7% in FY2017 on a similar level of throughput to FY2016.
- EBIT guidance for FY2017 is in the range \$45-55 million with strong conversion of EBITDA to cash expected to continue into FY2017.

Austal Limited (**Austal**) (ASX:ASB) provides the following update on its Littoral Combat Ship (LCS) program in the US and the impact on the Company's FY2016 earnings.

### **Littoral Combat Ship program review**

As previously advised, Austal has experienced ongoing schedule and margin pressure on the LCS program following delivery of LCS 6 in August 2015, Austal's first as prime contractor.

The delivery of LCS 6 and 8, completion of preparations for the shock trials of LCS 6 and favourable preliminary results from the first two physical shock trials of LCS 6 which were undertaken in June 2016, have enabled Austal to define a revised baseline design for a shock rated vessel built to US Naval Vessel Rules.

The "shock tests" are a contractual obligation that require the ship to survive the effects of a local explosive blast. The LCS is the first aluminium trimaran in the world to undergo such an analysis and test. The test regime qualifies the vessel's entire class and no further shock trials are expected for subsequent vessels.

Initial findings of the shock trials are that the implementation of these design modifications have been successful, providing Austal with greater certainty about the baseline LCS design and estimated cost of construction, and how that applies across the LCS program.

Austal has undertaken an extensive review of the LCS program to gain greater clarity on the costs associated with building to the revised baseline design and to quantify the impact across the life of the LCS program and concluded the following:

- The cost of building the Littoral Combat Ships to meet the shock rating standard and US Naval Vessel Rules is materially more than what was previously estimated.
- The cost of modifying vessels and components already constructed to meet the shock standard and US Naval Vessel Rules is materially more than what was previously estimated;

The cost of modifying vessels and components already built has been exacerbated by the concurrent construction schedule with 10 LCS of a total of 11 LCS under contract at various stages of construction since April 2015. Modifications to vessels at an advanced construction phase will be more expensive and difficult to implement than pre-launch modifications or modifications to vessels not yet under construction.

## Financial impact

Cost increases associated with the revised baseline design are shared 50 / 50 with the US Navy up to a ceiling price per the LCS contract structure. This will reduce the negative profit impact to Austal.

The change of estimate means that too much revenue and profit was attributed to work already completed. Work in progress (WIP) is overstated because additional costs will be incurred to meet the shock standard and US Naval Vessel Rules. This is being written back as a one-off, US\$115 million (A\$156 million) downward adjustment to revenue and work in progress (WIP) in FY2016.

Austal expects to record an EBIT loss of \$(116-121) million in FY2016 primarily as a result of this US\$115 million (A\$156 million) write back of WIP. The adjustment does not affect Austal's current cash position because billings to the US Navy are calculated based on actual cost incurred, not revenue booked and therefore no overbilling has occurred.

The Group is expected to continue to generate positive operating cash flows and is forecasting FY2017 US shipbuilding margin of 5% – 7% in and FY2017 Group EBIT of A\$45 million – \$55 million.

Austal has initiated discussions with the US Navy about increases in design scope that may improve Austal's position. Austal has not recognised any value associated with these discussions in its profit calculations due to the preliminary nature of the process.

Austal is compliant with all of its banking covenants and maintains the support of all the members of its banking syndicate.

## Summary

Austal Chief Executive Officer David Singleton said the financial impact from the LCS program was clearly disappointing, however, the outlook for the US business remained positive in terms of the generation of future profits and cash flows.

"Operationally, we have implemented a considerable number of modifications to LCS 8 which has only recently been contractually delivered to the US Navy. This is only the fourth ship of the 13 LCS ordered by the US Navy to date."

"Initial findings from two shock tests performed in June 2016 on LCS 6, the only vessel that will undergo the tests, have been favourable and provide us with confidence on the baseline design and cost of construction across the program to meet the standard."

“The predicted US shipbuilding margin is made up of a combination of the stable and predictable performance from the EPF programme and now combined with a much clearer understanding of the margins that will be generated from the remaining LCS vessels block buy contract. LCS margins are lower than EPF but will rise in later years as the design modifications are built into the baseline design of new ships without requiring modification of components already built.”

“Pleasingly, the Expeditionary Fast Transport program (formerly called JHSV) is performing financially well and provides a clear example of the benefits of being able to work through first-in-class issues.”

“Meanwhile, Austal remains in a strong financial position and is continuing to generate positive operating cash flows, which will support ongoing debt reduction and returns to shareholders.”

**-ends-**

**Conference Call**

Chief Executive Officer David Singleton and Chief Financial Officer Greg Jason will hold a conference call today to discuss the LCS program and earnings update at the time listed below.

Date: Monday, 4 July 2016  
Time: 7am Perth time (AWST) / 9am Sydney time (AEST) – participants are requested to dial in 5 minutes prior to the start time

**Dial-in details:**

Domestic participants can dial either of the numbers below to join the call.

Conference ID: 44021470  
Toll free: 1800 123 296 or Toll: +61 2 8038 5221

International toll-free numbers are listed below. For countries not listed below, the Australian Toll number can be dialled.

Canada	1855 5616 766	New Zealand	0800 452 782
China	4001 203 085	Singapore	800 616 2288
Hong Kong	800 908 865	United Kingdom	0808 234 0757
India	1800 3010 6141	United States	1855 293 1544
Japan	0120 477 087		

## **About Austal**

Austal is a global defence prime contractor and a designer and manufacturer of defence and commercial ships. For more than 27 years Austal has been a leader in the design, construction and maintenance of revolutionary ships for governments, navies and ferry operators around the world. More than 255 vessels have been delivered in that time.

## **Ships**

Defence vessels designed and built by Austal include multi-mission combatants, such as the Littoral Combat Ship (LCS) for the United States Navy and military high speed vessels for transport and humanitarian relief, such as the Expeditionary Fast Transport (EPF) ships for the U.S. Navy and High Speed Support Vessel (HSSV) for the Royal Navy of Oman. Austal also designs, constructs, integrates and maintains an extensive range of patrol and auxiliary vessels for government agencies globally, including the Cape Class Patrol Boat Program for Australian Border Force. Defence vessels are designed and constructed in Mobile, Alabama and in Henderson, Western Australia.

Austal has been at the forefront of the high speed ferry market since the early days of the industry. Our market leading designs of high performance aluminium vessels have long been at the heart of Austal's research and development. Today, commercial ship construction is centred on our shipyard in Balamban, Philippines.

## **Systems**

Austal has expertise in integrating complex systems into its ships, including ride control, ship management, and communication, sensors and weapon systems.

## **Support**

Austal provides a wide range of support services, including through life support, integrated logistics support, vessel sustainment and systems support. These services are delivered through our global support network in the USA, Australia, Asia, and the Middle East together with partner shipyards worldwide.

### **Further Information:**

Austal, Public Relations

Tel: +61 8 9410 1111

Fax: +61 8 9410 2564

Email: [pubrel@austal.com](mailto:pubrel@austal.com)

Website: [www.austal.com](http://www.austal.com)